Budget 2016-17: Hype is all*

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The Union budget for the year 2016-17 presented to parliament by Finance Minister Arun Jaitley on February 29, has been termed “pro-poor” and “pro-farmer” by the media. Nothing alas could be further from the truth. The total expenditure of the government in 2016-17 is supposed to increase by 10.6 percent over the revised estimates for 2015-16, compared to a GDP growth-rate of 11 percent, which means that the budget if anything is deflationary in overall terms even in the midst of a world economic crisis that was alluded to by Jaitley himself.

It may of course be argued that despite this macro appearance, the composition of expenditure has been so altered that employment and people’s welfare will still increase because of this budget. But this too is not true. Even in the case of the much-hyped welfare provisions, the proposed increase in expenditure is so paltry that they would hardly make much difference.

For the MGNREGS for instance the provision is a mere Rs.38500 crores. In the year 2014-15 while the budget had provided Rs. 34000 crores, the actual scale of operation of the scheme had been larger and arrears of at least Rs. 6000 cores had built up. If the same scale of operation had to be preserved, then, even assuming zero inflation, a sum of Rs. 46000 crores should have been provided last year. Instead the budget had provided the same amount as in 2014-15, which means the scale of operation had been much truncated during last year itself. The current provision carries this truncation further forward. To achieve even the scale of 2014-15, on the assumption of zero inflation and a minimum of Rs.6000 crores of arrears, the budget should have provided at least Rs. 46000 crores. By providing only Rs.38500 crores it has ensured that the scheme cannot generate employment even on the scale achieved in 2014-15, let alone provide the 100 days of employment that is statutorily assured in this “Rights-based programme”.

Let us next consider the Health Insurance Scheme that appears so striking at first glance, since, unlike its predecessor the RSBY, it seeks to cover Rs.1 lakh of health expenditure per household per year. While the exact number of households to be brought under this scheme is not clear, Jaitley mentioned the figure of about one-third of the total households in the country, which constitute BPL households. Their number would be around 8 crore households.

While it has been argued, very rightly, that the insurance route for providing healthcare support is itself merely a way of putting money in the hands of private healthcare facilities, rather than of providing any genuine support to the needy, which can be done only through a European-style National Health Service, the numbers proposed to be covered under the scheme are nonetheless very large. Are they really going to get some benefit out of it? And if so, how much?

The total allocation under the RSSY for 2016-17 is Rs.19000 crores in round figures. Let us assume that the government is going to spend this much entirely on paying insurance premia. Now, insurance companies are not in the business to make losses; they would insist that the expenditure they incur in paying to hospitals must be matched at the very least (even ignoring their other expenses) by the premia they get. The total premium amount just mentioned, when divided by 8 crore households, comes to roughly Rs.2500 per household per year, which would cover at the most just five visits to the out-patients departments (OPDs) of the hospitals that would to be empanelled under the scheme.

To be sure, if government healthcare facilities were also thriving, and the proposed Rs.1 lakh was purely additional to the free or inexpensive treatment that the poor should have access to at these facilities, then matters would be quite different; but precisely because of the insurance scheme the government runs down its own healthcare facilities. Even in the current budget where the Insurance scheme is announced with much fanfare, the actual increase in the health budget is a mere 9-10 percent, which means a reduction in its ratio to the GDP. Put differently, the insurance route not only puts money in the pockets of private hospitals; it actually lowers the availability of healthcare to the very people whom it is supposed to benefit.

Let us now take the third major scheme announced by Jaitley, which is the provision of cooking gas connections to rural households. The total amount earmarked for it is a paltry Rs.2000 crores, and the scheme is supposed to take three years to complete. Now, a question arises: if, with such paltry allocations spread over three years, 5 crore households can be covered at the end of this period, then why did the Finance Minister not just set aside Rs.6000 crores during this year itself to cover this entire segment?

But consider the scheme as it stands. Assuming that the annual expenditure on gas cylinders alone per household would be about Rs.8000 per annum, the claim of this item on the total annual expenditure of the household would be around a sixth; and if the government wanted to alleviate this burden it should have subsidized gas connections to these households massively. Instead it allocated a sum of only Rs.2000 crores. If this sum is divided by the number of beneficiaries, namely 1.5 crore households, then we get a figure of Rs.1300 per household which comes to every such household. This still leaves these families with the onerous task of having to spend almost a seventh of their current expenditure on gas cylinders. And because of this, many of the intended beneficiaries will not even be in a position to move to cooking gas. The government's succour in short is too paltry to improve the lives of the poor households in this sphere.

This can in fact be said of every single welfare measure announced in the budget. With paltry provisions the government is using a lot of hype to give the impression that it has produced a "pro-poor" budget. On the contrary, compared even to 2014-15, there has been a decline in the 2016-17 budget in the share of GDP going as budgetary allocation for several major social sectors: health, primary education, mid-day meals, and Integrated Child Development Services.

Let us now come to the agricultural sector. Here a reclassification of heads in the 2016-17 budget has given an exaggerated impression of the increase in outlay over the previous year. But on a proper classification, i.e. after including "interest subsidy on short-term credit to farmers" within the allocation for "Agriculture, Co-operation and Farmers' Welfare" for 2015-16 too, as it has been for 2016-17, we find an increase in the nominal allocation for this entire sector of 33 percent. How farmers' incomes can be doubled over a five-year period with allocation on such a meager scale remains a mystery.

Jaitley however made two important announcements with regard to this sector. One was a “decentralization” of procurement, which basically means that over large tracts of the country the FCI would withdraw from procurement, and that either state governments or private entities authorized by the state governments would take over. This is a reversion to what the central government was trying to do almost a decade ago; but the sharp rise in food prices that had suddenly occurred at that time had forced it to change track. But now we are back again to a dismantling of the food procurement and distribution system built up so assiduously over the years.

What it would do to the public distribution system is clear. The FCI will perhaps continue to maintain, at least for a while, a skeletal arrangement for some minimum amount of foodgrains to be distributed to the deficit states. But if a deficit state needs more than this minimum, then it would either have to go to the free market to buy the requisite amount, where it will have to pay exorbitant prices which it can ill-afford; or run from pillar to post approaching other state governments, those belonging to the surplus states, who may or may not be willing to sell it the grains it needs. This measure in short constitutes a blow to the public distribution system in this most essential commodity.

But that is not all. There are many states like West Bengal for example where no agency currently exists for government procurement. In such states there will simply have to be private purchase as in the colonial days, which means that the insulation of the peasantry from price-crashes will cease to operate. Instead of a doubling of farm incomes in five years as the NDA government promises, there would be an increase in agrarian distress, affecting even foodgrain producers who till now had enjoyed some degree of immunity from price crashes.

Jaitley’s second announcement relates to allowing100 percent foreign-owned firms to the market for agricultural products. This again means two things: first, the peasantry would now be thrown to the mercy of MNCs even in the sphere of marketing; and second, the domestic market would get “disarticulated”, with shortages in one part of the country co-existing with exports from another part, and the even more absurd situation of MNCs buying cheap from one part of the country (where the peasants are desperate to sell) to sell in another part at skyrocketing prices because scarcity happens to prevail there.

These two announcements are in fact interlinked. Agro-marketing MNCs have made no secret of the fact that they have largely kept away from the Indian market because of the existence of the FCI. That impediment is now being removed. And if Jaitley and the NDA think this is going to raise peasant incomes, then they know little about the world, or even about the Indian economy under colonial rule.

Thus, behind all the hype about a “pro-poor” and “pro-farmer” budget, we are seeing a major dismantling of a system, which on the whole gave assured remunerative prices to producers, and protected consumers from situations like the infamous Bengal famine of 1943.

The budget figures have been seriously questioned, though I shall not enter into that issue here. The estimate of revenue from excise duty is so high that one can only presume that it is based on the assumption of a further fall in oil prices. Indeed, all Jaitley's boasts about the economy's performance last year, such as the current account deficit and inflation being under control, arose simply from the fall in oil prices and not on anything that the NDA did. Correspondingly, however, any rise in oil prices in the coming year would entirely undermine the budget.

What is striking about the 2016-17 budget is the opportunity that has been missed. Even if a fiscal deficit of 3.9 percent of GDP would have been maintained for 2016-17, as it has been for 2015-16 with no apparent additional damage to the economy, a sum of Rs.60,000 crores could have been obtained from this source alone; and in that case, some of the welfare measures that Jaitley talked about could have actually been implemented. But then what can one expect from the NDA?

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